



AUDITOR-GENERAL  
SOUTH AFRICA

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Auditor-General of South Africa

# Amajuba District Municipality – audit report 2015-16

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Amajuba District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I audited the financial statements of the Amajuba District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Revenue and consumer debtors – Service charges**

6. I was unable to obtain sufficient and appropriate audit evidence that revenue and debtors from service charges had been properly accounted for; as there were households within the demarcations of the municipality that are not billed and the municipality could not provide the basis of estimates used to bill household with defective meters. I was unable to confirm revenue and consumer debtors from service charges by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from service charges and consumer debtors stated at R24,42 million and R33,30 million in notes 18 and 14 to the financial statements was necessary.

## **Qualified opinion**

7. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below.

### **Restatement of corresponding figures**

9. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 30 June 2016 in the financial statements of the Amajuba District Municipality at, and for the year ended, 30 June 2015.

## **Going concern**

10. As disclosed in note 38 to the financial statements, the municipality's current liabilities exceeded its current assets by R63 million. These conditions, along with other matters as set forth in the note, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matters**

11. I draw attention to the matters below.

### **Unaudited disclosure notes**

12. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Basic service delivery and Local economic development objectives presented in the annual performance report of the municipality for the year ended 30 June 2016.

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the selected development objectives are as follows:

## **Basic service delivery**

Usefulness of reported performance information

Consistency of objectives, indicators and targets

19. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 61% of the reported indicators and 82% of reported targets were not consistent with those in the approved IDP. This was due to a lack of skills and slow response by management to respond to recommendations by the oversight role players.

Changes to indicators and targets not approved

20. Section 54(1) (c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council.

## **Local economic development**

Usefulness of reported performance information

Consistency of objectives, indicators and targets

21. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 58% of the reported indicators and 233% of the reported targets were not consistent with those in the approved IDP. This was due to a lack of skills and slow response by management to respond to recommendations by the oversight role players.

Changes to indicators and targets not approved

22. Section 54(1) (c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council.

Reliability of reported performance information

23. I did not identify any material findings on the reliability of the reported performance information for the Basic service and delivery and Local economic development objectives.

## **Additional matters**

24. I draw attention to the following matters:

### **Achievement of planned targets**

25. The annual performance report on pages x to x; x to x presents information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for selected objectives reported in paragraphs 19 to 23 of this report.

### **Adjustment of material misstatements**

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic service delivery and Local economic development objectives. As management subsequently corrected the misstatements, I did not raise any material findings on the reliability of the reported performance information

### **Unaudited supplementary schedules**

27. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

## **Compliance with legislation**

28. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

29. The performance of uThukela Water (Pty) Ltd against the agreed performance objectives and indicators was not monitored and annually reviewed, as part of the annual budget process, as required by section 93C(a)(v) of the MSA.

30. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, review and reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

31. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulations 12(1) and 12(2)(e).

## Consequence management

32. Irregular expenditure as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Revenue management

33. An effective system of internal control as well as an adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) and (f) of the MFMA.

## Expenditure management

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent unauthorised, fruitless and wasteful and irregular expenditure, as required by section 62(1)(d) of the MFMA.

## Annual financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided for revenue and receivables resulted in the financial statements receiving a qualified audit opinion

## Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

38. The leadership did not adequately oversee and monitor the internal controls to ensure that effective measures were taken to address previous findings on revenue, performance information and compliance with legislation. This was due to vacancies in key positions, as well as slow responses in filling the key positions.

## Performance management

39. Management did not undertake adequate reviews of registers, reconciliations and schedules supporting information reported on the annual performance report. This was due to slow response in addressing internal control deficiencies identified by internal audit and audit committee.

## Other reports

40. I draw attention to the following engagement that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement.

## Investigation

41. The municipality appointed an independent consulting firm in 2012 to conduct an investigation into alleged procurement of goods and services irregularities covering the period 1 July 2011 to 30 June 2012. The investigation was still in progress at the date of this report.

*Auditor-General*

Pietermaritzburg

30 November 2016



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